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THE NATIONAL CITY BANK OF NEW YORK

1930

Economic Conditions
Governmental Finance
United States Securities

New York, August, 1930.

General Business Conditions

THE experience of the first six months of this year would bar the hope that the month of July might inaugurate any marked change in the business situation. The failure of the Spring months to show sustained trade improvement had a pronounced effect upon sentiment in business circles in June, as reflected in lower prices in the stock and commodity markets. Crop prospects were for large yields, which in view of existing supplies exerted a depressing rather than a cheering influence. Reports from other countries told of increasing unemployment and emphasized the world-wide extent of the trade recession. Under the circumstances, the usual custom of suspending or slackening industrial operations in July naturally has been fully observed and the general attitude has been that of waiting for developments, rather than of attempting to start developments.

When a pronounced business reaction is unmistakeably under way, caution rules in all quarters until the measure of the movement has been taken. For the time being new commitments are avoided and business is reduced largely to the routine of supplying current demands, working off existing stocks, making collections, and reducing expenses. It is a time of doubt and uncertainty, and naturally the volume of business falls much below what it is when a spirit of confidence and enterprise rules. Moreover, it declines because conservatism and economy rule not only in the direction of business but in the management of private affairs. There is a great difference in the expenditures of the American people between a period of easy confidence and optimism and a time when they have the will to economize, and this difference is no small factor in the fluctuations that occur in the volume of business. It would be a fine thing to stabilize business, but the business situation as a whole is what the millions of people make it in the management of their private affairs.

Clearing Out of Stocks

On the down turn the inevitable policy of playing safe, reducing stocks and expenditures, has an increasingly depressing influence upon the volume of business and prices until the bottom is reached. Costs have little relation to prices so long as surplus stocks are hanging over the market; moreover, costs are undergoing revision at such a time and uncertainty exists as to future prices. However, the situation begins to improve when dealers' stocks are reduced to the point where further sales must be offset by purchases from original sources. Once accumulated stocks are out of the way, production becomes more closely related to consumption and the first stage of stabilization has been reached. There is reason to believe that production in many manufacturing industries in recent months has been below current consumption, which would mean that dealers' stocks are being cleared out and that the increased retail trade of the Fall months probably will call for higher industrial activity. It is known that automobile production has been restricted with a view to reducing dealers' stocks of both new and second-hand cars, and that good progress to that end has been made. Information concerning stocks in other lines is not so definite, but generally in trade circles the belief prevails that an increased rate of production will be soon required to meet the requirements of retail trade.

In short, the downward trend of business, while uncertainty and fear are the dominating influence, is a well known phenomenon, and so is the upward trend when production and consumption have gotten into close relations again on a conservative basis. From that time on constructive influences dominate with growing strength and gradually build up a new prosperity on a sounder basis than before.

The Farm Situation

Although a lengthy period of industrial expansion, largely built upon sanguine anticipations of the country's needs in the future, naturally involves a slowing down interval for readjustments, there is abundant warrant for saying that the weak spot at this time is not primarily in the industries, as they are com-

181

monly distinguished from agriculture, but in the mother industry herself. Pessimism is due in larger degree to the low prices of farm products than to anything else, and these prices are traceable mainly to the stimulus given to production by the high prices prevailing during and immediately following the war. Abnormally high prices almost always react disastrously upon any industry that experiences them, and this is especially true of an industry in which opportunities for expansion are open in so many countries.

However, the relative excess of agricultural production in the world is not great, and probably would be nil if the purchasing power of millions now in want could be increased by better trade relations. Wheat and cotton are our chief agricultural exports, and the most important farm products affected by world competition. Our exports of wheat, including flour, aggregated about 160,000,000 bushels in the crop year 1928-29, and 152,000,000 bushels in the crop year 1929-30. In the older farming States wheat does not hold the relatively important place which it did twenty years ago, and in the States where it is of leading importance it is being produced at much lower cost than formerly. Cotton is the cheapest clothing material known to the human race, and will not be produced in excess unless the farmers of this country do it. Notwithstanding the increased production of wheat in other countries, the present situation in wheat and cotton may be said to be immediately due to the expansion of these crops in the plains region of the Middle West in recent years. The rapid development of other regions has affected older farming districts in like manner in the past, but they were able to adjust themselves to the new conditions, with the help of the ever-increasing consumption of farm products in the cities. The new census figures indicate that the cities will make continuing demands upon the farms, not only for food and industrial materials, but for young men and women for all the city industries and occupations.

This does not answer the inquiry as to the effects of reduced farm income this year upon the general business situation, but the final figures upon farm income, and the relation of farm income to farm outgo, are not yet known. The year's crops in many countries are at the critical stage now, and have lost something of their early promise. Disregarding Russian possibilities, of which little is known, the European wheat crop seems likely to be smaller than last year. Heavy purchases of wheat in our markets in July for European account have encouraged the belief that importations will have to be larger this year than last. However, reports are conflicting as to crops both on this side and in Europe.

Cotton is suffering from under-consumption the world over, and may rule low for a time, but we believe the American cotton producers, who will do the job efficiently, have as fair a prospect as any class of producers in the world.

All farming costs are being materially reduced by improved methods of farm production and lower costs upon most of the items of outlay. It is too early yet to say just what the outcome of the changes on both sides of the account will be, but we have confidence that the equilibrium will not be as seriously disturbed as in some quarters has been apprehended.

A World Situation

Conditions in many countries are contributing this year to lessen the demand for American products, and thus affecting prices. Grave social disorder exists in India and China, two of the largest markets for cotton goods and important buyers of other American products. The tropical countries are all large consumers of cotton goods, and all of them unfortunately are experiencing low prices for their own products. This condition affects the cotton goods industry everywhere, and is responsible for the fact that exports of raw cotton from the United States from August 1, 1929, to July 25, 1930, were 1,327,000 bales less than in the corresponding period of 1928-29. The consumption of our domestic mills fell off almost exactly the same amount. The aggregate is an entirely abnormal decline, due to disturbed trade conditions.

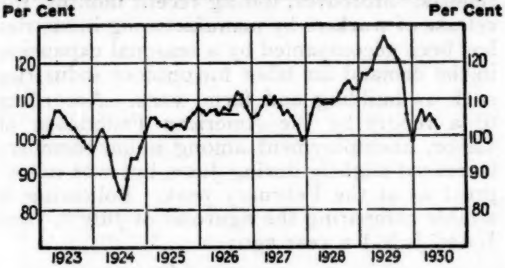
Other products have been under pressure in like manner, as appears by the fact that this country's foreign trade in the first six months of the year declined in the aggregate 22 per cent, of which exports lost 21 per cent and imports 24 per cent, a remarkably uniform decline. Falling prices of course account for much of the decline on each side, but the variations among the commodities are large.

Current Production and Trade

Perhaps the best measure of the fluctuations of general industrial activity is to be found in the composite indexes put out by various official and private statistical agencies, and of these the index of industrial and mining production computed by the Federal Reserve Board may be taken as a sample. In the accompanying diagram we show the course of this index by months from January 1923 to June 1930 inclusive, seasonal variation allowed for.

It will be seen that production this year has shown a marked shrinkage from the abnormally high levels of 1929, and, except for the dip towards the end of 1927, has averaged lower than in any previous year since 1925.

Federal Reserve Index of Industrial Production (Adjusted for Seasonal Variation—1923-1925=100)



The diagram traces the temporary recovery this Winter, since followed by a renewed decline to near the December low point, with the probability that July figures will show a further decrease, which, however, may mark the turning point. In view of all the pessimism afloat at times during recent months, it is interesting to note that the current levels, though materially under the boom period, have not been much under the average of recent years and have been substantially above the low points touched in the depression of 1924. While it is true that the growth of business and increasing capacity of the industries must also be taken into consideration, nevertheless the showing, in view of what business is going through all over the world, seems decidedly encouraging.

Of the other barometers of business, consumption of electrical energy by manufacturing plants declined further in June, according to the index of the Electrical World, which reached the lowest level since December 1927, off 14.6 per cent from June a year ago. Car loadings of revenue freight for the four weeks ended July 19 were down 14 per cent from last year, and the lowest for the period since 1924. Shipments of merchandise and miscellaneous freight alone showed a loss of 12 per cent, and touched the lowest for the season since 1924. In considering traffic figures, however, it must be remembered that motor truck competition, growth of pipe line and superpower systems, and heavier loading of cars affect somewhat the validity of comparisons over any extended period. Third quarter freight car requirements are estimated by the Regional Shippers' Advisory Boards at 6.5 per cent less than in the third quarter of last year.

The steel trade has passed through a quiet July, with mill operations ranging from 48 per cent of capacity during the week of the July 4 holiday to 57½ per cent at the close of the month. Structural steel and pipe have continued to feature the demand, with little doing in automobile and farm implement lines. Trade reviews see no great expansion of activity as an immediate prospect, but report sentiment improved and a general expectation of a moderate uptrend in the Fall. In issuing its income report for the second quarter, the United States Steel Corporation announced that its plants were running at 63 per cent of capacity and expressed the view that "indications in the industry point to an increase in this rate of operations during the balance of this quarter, with an improvement in volume during the last quarter of the year."

Recently farm implement makers' activity has been stepped up somewhat, accompanying receipt of large export orders, while automotive production is expected to pick up following the termination of the Summer shut-down period. For the month of June motor car production totaling 335,475 units, was the smallest for the month since 1927, with probability that July figures will show a further decline, a reduction of output which has resulted in a marked clean-up of dealers' stocks throughout the country. In the building industry, the value of contracts awarded rose 13 per cent over June last year, due largely to contracts for pipe lines, road building and public works, but preliminary figures for July indicate a less favorable showing. Without residential building, no real revival of building can be expected and, while this class of construction has shown some improvement, signs of a definite uptrend are still in the future.

In the field of retail trade, June figures showed the expected decrease, the sales of 643 department stores reporting to the Federal Reserve Board being 10 per cent under those of June last year. Lower prices are a highly important factor in the showing, and the actual volume of goods distributed is nearer to that of 1929 than the dollar figures indicate. One of the most encouraging features of the present situation, and one that contrasts sharply with the conditions of 1920-21, is the generally low level of merchandise inventories which is making it possible to turn goods over rapidly and pass the benefits of lower prices more promptly to the consumer.

Foreign trade figures of the United States continue to reflect depression in world markets, as indicated by the following table comparing the totals by months for the first six months of 1930 and 1929:

Foreign Trade of United States (In Millions of Dollars)

	1929			1930		
	Imports	Exports	Excess of Exports	Imports	Exports	Excess of Exports
January	369	488	119	311	411	100
February	369	442	73	282	349	67
March	383	490	107	300	369	69
April	411	425	14	308	332	24
May	400	385	—15	285	319	34
June	353	393	40	250	299	49
6 Months	2,285	2,623	338	1,736	2,079	343

It will be seen that exports have decreased in every month this year excepting March, while imports, though fluctuating, showed a like decline. One of the interesting features of

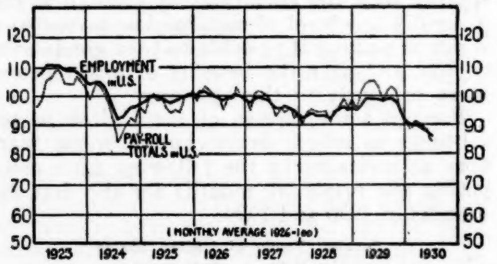
the table is the uniformity shown in the decline of both imports and exports. Whereas, ordinarily a severe readjustment in domestic trade such as we have been experiencing might be expected to result in a marked change in our external trade balance, with a tendency for imports to exceed exports, the record of the past six months shows nothing of the sort. Imports aggregating $1,735,000,000 are down $551,733,000 from a year ago, while exports aggregating $2,079,000,000 are down $543,247,000, or but slightly less than imports. Thus the excess of exports showed only a negligible change from $336,713,000 last year to $344,199,000. Of course lower commodity prices are a factor on both sides of the equation.

Employment

With industrial activity at low ebb, reports on employment have not made very cheerful reading. Reports, both of the Federal and New York State Departments of Labor showed further decreases during June in the number of workers and total payrolls in manufacturing industries. While a decrease from May to June is not unusual even in normal times, the decrease this year was greater than usual, and following as it did sub-normal employment conditions in earlier months, caused the poorest showing for the Federal report since July 1922, and for the New York State report the poorest on record. The following diagram compares the trend of employment and payrolls of manufacturing concerns reporting to the United States Department of Labor since 1923.

Employment and Payrolls in Manufacturing Industries
Source—U. S Department of Labor. Monthly Average 1926 = 100.

Per Cent | Per Cent



Undoubtedly, however, these figures are subject to some qualification. In any long term comparison of employment figures allowance must always be made for the well recognized tendency of industry in this country to get along with fewer and fewer workers per individual concern. Unless this is done the effect is to create the impression of steadily decreasing employment, whereas as a matter of fact many of the workers released in this way have been finding employment in other industries that are constantly developing and which are not included in the official reports. Moreover, during recent months, the release of workers by manufacturing industries has been accompanied by a seasonal expansion in the demand for labor for outdoor industries such as building and farm work. According to a report by the American Federation of Labor, unemployment among union members increased slightly during June, but was not so great as at the February peak. Following is a table comparing the figure as of July 1, June 1, and July 1 a year ago:

Unemployment in the United States
Per Cent of Union Members Unemployed

	July, 1930*	June, 1930	July, 1929
All Trades	21	20	9
Building Trades	37	37	16
Metal Trades	21	19	6
Printing Trades	7	6	4
All Other Trades	16	14	—

*Preliminary.

The Half Year's Profits

A considerable share of the business news of the month has been comprised of corporation earnings reports covering the first half year. Because of the curtailed rate of activity in most lines of business, the severe slump in commodity prices and the lack of any appreciable recovery by the mid-year these figures have been awaited with more than the usual interest. The combined net profits of the companies whose reports we have compiled to date are approximately 25 per cent below the first half of 1929 and 3 per cent below 1928. A surprisingly large number of companies, amounting to three out of every ten, actually achieved an increase in net profits in the first half of 1930 over 1929.

The accompanying tabulation shows, classified according to major industrial groups (but not including railroads, public utilities, financial companies, etc.), the combined net profits in every published report that we have been able to secure covering the first half of 1929 and 1930, with the percentage of change. Aggregate net profits, of the 305 companies that have issued reports to date, before dividends but after all expenses, fixed charges and tax reserves (except in a few instances where the adjustments for such are not made until the end of the year) were approximately $653,000,000 in the first half of 1930, as compared with $870,000,000 in the first half of 1929, giving a decrease of $217,000,000. In the corresponding period of 1928 the same identical companies had aggregate net profits of $671,000,000, from which the decline this year was $18,000,000.

While this tabulation gives a significant preliminary cross-section of business operations as a whole during the first half year, it should

Summary of Industrial Corporation Profits for First Half Year 1929 and 1930, With Percentage Return on Capital and Surplus

No.	Industry	Net Profits 000's Omitted 1929	Net Profits 000's Omitted 1930	Per Cent Change 1929-30	Capital & Surplus 000's Omitted 1/1/29	Capital & Surplus 000's Omitted 1/1/30	Per Cent Change 1929-30	Per Cent Return 1929	Per Cent Return 1930
3	Amusements	$ 13,093	$ 19,079	+45.7	$ 135,994	$ 213,094	+56.7	9.6	9.0
10	Apparel	4,115	2,876	—29.1	71,260	72,377	+ 1.6	5.8	4.0
1	Automobiles—Gen. Mot.	151,860	98,355	—35.2	858,463	954,476	+11.2	17.7	10.3
12	Automobiles—Other	51,202	15,317	—70.1	381,088	402,611	+ 5.6	13.4	3.8
36	Auto Accessories	49,638	28,297	—43.0	369,502	429,719	+ 6.3	13.4	6.6
7	Baking	23,660	20,248	—14.4	291,288	304,220	+ 4.4	8.1	6.7
15	Building Materials	15,225	7,883	—48.2	249,044	273,531	+ 9.8	6.1	2.9
15	Chemicals	78,601	65,575	—16.6	832,371	979,599	+17.7	9.4	6.7
7	Coal Mining	1,845	545	—70.5	113,411	117,998	+ 4.0	1.6	.5
5	Drugs and Sundries	17,705	20,338	+14.9	149,455	163,790	+ 9.6	11.8	12.4
9	Electrical Equip.	49,998	42,552	—14.9	628,649	717,074	+14.1	8.0	4.9
18	Food Prod.—Misc.	52,459	54,116	+ 3.2	558,156	608,256	+ 9.0	9.4	8.9
8	Household Goods	8,268	7,566	— 8.5	149,767	157,482	+ 5.2	5.5	4.8
1	Iron and Stl.-U. S. Steel	96,011	67,905	—29.3	1,752,600	1,919,313	+ 9.5	5.5	3.5
23	Iron and Steel—Other	61,196	44,910	—26.6	1,038,891	1,238,272	+19.2	5.9	3.6
2	Leather Tanning	D-1,910	385	+	41,204	34,325	—16.7	D-4.6	1.1
21	Machinery	22,722	21,248	— 6.5	268,798	306,285	+13.9	8.4	6.9
8	Merchandising	11,903	8,325	—30.1	146,250	161,868	+10.7	8.1	5.1
9	Mining, Non-ferrous	12,129	3,090	—74.6	151,110	152,251	+ .8	8.0	2.0
5	Office Equipment	12,012	8,669	—27.8	116,008	125,681	+ 8.3	10.3	6.9
7	Paper Products	3,120	3,763	+20.6	69,864	73,783	+ 5.6	4.4	5.1
16	Petroleum	53,188	39,373	—26.0	973,676	1,059,116	+ 8.8	5.5	3.7
6	Printing and Pub.	15,684	16,398	+ 4.5	100,580	105,719	+ 5.1	15.6	15.5
8	Railway Equipment	9,980	11,855	+20.0	203,914	226,830	+11.2		
3	Realty	5,191	4,376	—15.7	86,715	88,033	+ 1,5	5.9	4.9
4	Restaurant Chains	1,220	1,631	+33.6	29,579	29,789	+ .7	4.1	5.5
4	Shoes	8,730	9,827	+12.6	170,691	178,894	+ 4.8	5.1	5.5
10	Textiles	5,931	3,140	—47.1	154,967	158,845	+ 2.5	4.9	2.0
5	Tobacco (Cigars)	4,174	2,920	—30.0	49,990	58,838	+17.7	8.3	5.0
27	Miscellaneous	31,211	22,246	—28.8	397,344	432,942	+ 8.9	7.8	5.1
305	Total	$870,161	$652,828	—25.0	$10,530,629	$11,743,041	+11.5	8.3	5.6

D—Deficit

be kept in mind that there are scarcely enough reports available to accurately measure the change in earnings for individual industries. As to the change in the totals, however, it is not believed that the publication of additional reports is likely to cause this to vary materially. Because of their size, General Motors Corporation and United States Steel Corporation are shown separately from the other companies of their industries.

Conclusions as to the showing of this year's statements will be largely determined by the basis of comparison used. Obviously it would be unfair to measure earnings this year solely against those of 1929, which established the high record for all time. In the absence of any dependable "normal," a comparison with 1928 would be more reasonable and would not show such a serious decline.

In the place of a simple comparison of net profits from one year to another, a somewhat more reliable measure of the profitableness of business may be had from the relation of such earnings to the "net worth" employed, comprised of outstanding capital stock and surplus as shown on their published statements at the beginning of each year. This invested capital grows fairly rapidly due to earnings retained in the business and to additional capital stock subscribed by shareholders. For the companies in our tabulation, the net worth at the beginning of 1929 and 1930 is shown, the aggregate of $11,743,000,000 on the latter date being $1,212,000,000 or 11 per cent larger than a year previous and $1,870,000,000 or 19 per cent larger than two years previous.

For the industrial group as a whole, net profits in 1930 represented a return on net worth at the beginning of the year of 5 per cent in the six months period or at the rate of 10 per cent annually; the comparable figure for the first half of 1929 was 8 per cent and for 1928 was 7 per cent. Current earnings of many companies are far from satisfactory, if considered in relation to the market quotations of their stock at several times its book value, but in relation to net assets as shown on their audited balance sheets the results so far this year hardly justify the loose talk so frequently heard that American business is "flat on its back."

Railroads and Public Utilities

Net operating income in the first six months of 1930 of the 172 Class 1 railroads of the United States, including 16 switching and terminal companies, based on complete figures for five months as reported to the Interstate

Commerce Commission, and preliminary figures for June, amounted to $379,000,000, which compares with $563,000,000 in the corresponding period of 1929, 462,000,000 in 1928, and is in fact the lowest since 1922. As railroads operate on a relatively narrow margin of profit and have an overhead charge that is more or less fixed regardless of fluctuations in the volume of traffic, a moderate falling off in gross causes a much sharper cut in net income, the reductions this year compared with last having been 11 and 33 per cent, respectively.

It is significant, however, that the expenses for maintenance of way and maintenance of equipment, which in the early months of the year were held up close to the corresponding monthly figures of 1929, are now being reduced from the totals of a year ago by an increasing margin. Transportation expenses are also being reduced, and it is likely that operating results in the last six months will make the showing for the year as a whole somewhat less unfavorable than the first half might indicate.

Gross earnings of the ninety-five principal public utility systems supplying electricity, gas, water and traction services that report monthly to the Department of Commerce have been running 3 per cent ahead of last year, while net earnings are 4 per cent ahead. This is below the normal rate of increase, and a portion of the gain is to be attributed to the new customers added to their systems each year. Gross earnings of the 103 principal telephone companies have to date been running 5 per cent higher than last year, but net earnings are 2 per cent lower.

Instalment Credit Experience

One of the favorable features of the present situation has been the manner in which instalment credit appears to be meeting the test of business depression. Although this form of financing has been in use for many years in connection with the sale of certain household articles such as sewing machines and pianos, and has a satisfactory record wherever the terms have been safeguarded properly, its great expansion during recent years has occasioned many misgivings, and predictions were made freely that the system would break down in periods of hard times and unemployment, thus burdening industry with a heavy volume of repossessions and accentuating the severity of the depression. Even among those of less decided opinion there was a tendency to reserve final judgment pending a trial under adverse conditions.

While it is admittedly still too soon to say precisely what the final results of the current experience will show, as that may depend a good deal upon the duration of the business depression, the conclusion at least seems warranted that the complications so often predicted from this source have been greatly exaggerated. With the severe phase of the depression already nearly nine months old it would seem as though any serious consequences that were due would have made their appearance before now. Yet, to date, the record of the leading finance companies has been remarkably favorable and one that speaks well for the security of this type of paper.

Because of the general interest in this subject, as well as the large amount of misinformation abroad, we have secured permission of four among the largest finance companies in this country to reproduce their figures of outstanding accounts, past due items, and repossessions, which will be found combined in the accompanying table.

Instalment Automobile Paper Held by Four Leading Finance Companies

(In Thousands of Dollars)

	—June 30— 1930	1929
Total retail notes receivable	$528,040	$539,575
Past due 30 to 60 days	1,616	1,094
Per cent of total	0.31	0.20
Past due over 60 days	985	626
Per cent of total	0.19	0.12
Value of repossessed cars in company possession	297	172
Value of cars repossessed for dealers with dealers' liability to finance company	2,382	1,314
Total value of repossessed cars	2,679	1,486

In presenting the table, a few words of explanation are necessary. Statistics relate only to the United States and cover only automobile paper. In listing past due items, only those delinquent 30 days or more are included, as past dues of less than that time are not considered significant. Some difficulty has been experienced in reconciling the figures of all four companies, due to differences in methods of accounting, but such differences are not believed to be serious enough to impair the usefulness of the table for the purpose in view. The fact that the volume of outstanding paper has shown so small a decrease over the past year in the face of a much greater decline in the sales of new automobiles may be attributed partly to the fact that one of the reporting companies, which only started in business in 1928, was greatly increasing its volume, and partly to heavier sales of used cars.

With these explanations in mind, it will be seen that out of total outstanding retail paper for the four companies amounting to $528,040,000 on June 30, 1930, only $1,616,000 or 0.31 per cent was past due 30 to 60 days, and only $985,000, or 0.19 per cent was past due over 60 days. While it is true that this represents a considerable percentage increase in past due

accounts as compared with the booming times of a year ago, the showing is nevertheless outstandingly favorable and should prove distinctly satisfactory to the friends of the instalment system.

Similarly, the figures as to repossessions have thus far proved far from alarming. While, as the table shows, the value of repossessions nearly doubled over the past year, the amount last year was so small that even with the increase this year the figures cannot be considered excessive.

It is true that some of the smaller finance companies have not done so well. Where a company does only a local business, without wide coverage, it is peculiarly susceptible to conditions in that territory. Moreover, repossessions in some lines have been heavier than in others, and this likewise has hurt some of the smaller finance companies and manufacturers doing an instalment credit business in those lines. In general, however, the record of the foregoing four companies seems to vindicate the instalment system, where carried on in accordance with sound principles and with adequate diversity of risks, from the charge of constituting a weak spot in our economic system.

All of which, of course, relates to the question of instalment credit simply from the standpoint of the goodness of the paper. It is impossible to say to just what extent the burden of keeping up payments on instalment paper outstanding has affected the sale of new goods. It is doubtless true that a large number of persons whose incomes have been reduced as compared with last year have attempted to continue their payments on automobiles, etc., so as not to lose possession of the merchandise and that this consequently caused a curtailment of the current expenditures in other directions. Granting, however, that the use of instalment credit has come to stay, it is obvious that while the application of current income to the payment of current indebtedness may have the effect of accentuating somewhat the decline in other expenditures for the time being, it also has the effect, by virtue of this very liquidation of indebtedness, of paving the way for a more rapid increase in expenditures later on.

Money and Banking

Under the continued influence of forces making for easy money, interest rates on most classes of accommodation declined again during the past month to the lowest level witnessed in years.

Following the July 4th holiday, commercial paper in the New York market was reduced another one-quarter to 3 @ 3¼ per cent for the best names. In July, 1929, the rate held uniformly at 6 per cent, and during the next three months ruled at 6¼. Even in July, 1928, the charge ranged from 5 to 5½ per cent.

Call money declined to 2 per cent for renewals, this being the lowest since 1924, and a large amount of funds was offered privately below this official Stock Exchange renewal rate, in some cases as low as 1 per cent. Time money did not go below 2½ @ ¾, and there was a tendency to ask fractionally higher rates for maturities beyond three months.

Commercial loans have been declining since the first of the year, without any important upturns except in June, whereas the normal seasonal movement after January should be upward. Commercial loans now stand $833,000,000 lower than a year ago, while loans secured by stocks and bonds have shown an increase of $715,000,000. In considering the increase in the latter, account of course must be taken of the large amount of loans made direct to brokers a year ago, under the stimulus of high interest rates for call money, but since then shifted to the banks as the major portion of such funds was withdrawn.

The increase in deposits since the first of March has been particularly rapid, and the combined total of demand, time and government deposits of the weekly reporting member banks exceeds the aggregate a year ago by more than $1,300,000,000 or 6.5 per cent. It is not surprising, therefore, that this steady increase of banking funds has readily absorbed all the available short-term paper, Treasury certificates, etc., customarily regarded as secondary reserves and then turned toward the market for longer term government bonds as well as municipal and corporate issues.

Bankers' Acceptances

This broad demand for prime investments of short term has been strikingly reflected in the market for bankers' acceptances, the rate of discount on which has now been driven down to 1⅞ per cent for 90-day bills, compared with 5⅛ per cent a year ago. Such low rates naturally have encouraged the use of the acceptance as a means of financing, which doubtless explains in part the fact that outstanding acceptances as of June 30 were $192,000,000 greater than a year ago in contrast with a considerable decline in direct borrowings from banks for commercial purposes during the same period.

Notwithstanding the decrease in our foreign trade in the past twelve months and the consequent shrinkage in acceptances based on imports and exports, some of the other types of acceptance business have made a gain and the total on June 30, 1930, was the highest ever recorded at that season, as may be seen from

the following five-year summary based on the nature of the credits:

Bankers Acceptances Outstanding June 30
(In Millions of Dollars)

	1930	1929	1928	1927	1926
Merchandise Imports....	$276	$323	$329	$294	$282
Merchandise Exports	373	368	361	261	209
Domestic Shipments	19	14	20	19	15
Domestic Warehouse......	145	88	117	100	69
Dollar Exchange	50	56	25	19	14
Foreign*	442	264	174	58	33
Total	$1,305	$1,113	$1,026	$751	$622

*Based on goods, stored abroad or shipped between foreign countries.

From the first of August to the end of the year the volume of acceptances outstanding may be expected to show a seasonal increase, which in the last five years has averaged in excess of $300,000,000. Curtailed foreign trade and lower commodity prices will tend to lessen the volume of credit required this year, but on the other hand the cheapness of the New York money is attracting a growing number of bills drawn in other parts of the world for financing shipments between foreign countries. Moreover there may be a substantially increased volume of acceptances drawn this Fall to finance the storage of wheat and other agricultural staples if the growers decide to hold back a portion of the crop and the Farm Board adheres to its decision not to make further large extensions of government credit this season.

At the Reserve Banks

The Reserve banks hold slightly more acceptances than on the corresponding date a year ago and usually increase their purchases in the Fall, which should tend to keep rates low for this class of paper. The government securities account is $500,000,000 higher than a year ago but combined discounts and advances for members are down $900,000,000 and amounted to only $191,000,000 on July 23 last, the lowest ever reached since the early days of the Federal Reserve System. On July 3 the Federal Reserve Bank of Boston lowered its rediscount rate from 3½ to 3 per cent, and during the month reductions of one-half per cent to 3½ per cent were made by Philadelphia, Richmond and Atlanta.

During July there was an export movement of gold amounting to $30,000,000 for France and $11,500,000 for Canada. This country sent $8,497,000 to France earlier in the year, but the Canadian shipment was the first since November, 1928. During the month there were gold imports of $10,820,000, principally from Brazil, Uruguay and China, and $3,000,000 was lost through earmarkings for foreign account, resulting in a net loss for the month through the 30th of $34,000,000.

In the first six months of this year, however, there was a net gain of $242,000,000 so that the country's monetary gold stock is still $208,000,000 higher than on January 1.

The Bond Market

The unusual state of ease in the money market has contributed strength to the market for longer term investment issues, even in the face of a continued heavy volume of new offerings. During June there was some irregularity in sympathy with stock market weakness, but since June 25 prices have shown a steady advance, amounting in all to approximately a full point in the Dow, Jones average.

Investment holdings of the reporting member banks have increased steadily during the past five months and at $6,200,000,000 stand substantially above the corresponding date in 1929 and, for the first time, above 1928. Not all of this increase, however, has been in long-term issues, for there has been and still appears a preference on the part of many banks for short-term bonds and notes as well as Treasury issues.

It is now possible to study detailed figures covering new financing in the first half-year and to see how complete was the reversal in relative popularity of bonds and stocks as compared with the first half of last year. Combined total of new financing so far in 1930 has been well below that of 1929, but less radically out of line with the average of other recent years as may be seen from the following summary, prepared from data compiled by the Commercial and Financial Chronicle.

Summary of New Financing for the Six Months Ended June 30 for Five Years
(In Millions of Dollars)

Corporate bonds and notes	1930	1929	1928	1927	1926
Railroad	$ 753	$ 380	$ 337	$ 539	$ 221
Public utility ..	1,139	697	1,087	1,011	879
Industrial	662	607	954	1,135	847
Investment	76	93	81	52	13
Miscellaneous	78	253	346	210	153
Total bonds and notes	2,708	2,030	2,805	2,947	2,113
Corporate Stocks					
Railroad	66	71	174	83	......
Public utility ..	661	657	610	469	318
Industrial	390	1,354	421	189	309
Investment	73	836	205	48	38
Miscellaneous	66	615	221	106	100
Total stocks	1,256	3,533	1,631	895	765
Total corporate..	3,964	5,563	4,436	3,842	2,878
Foreign gov.	375	42	501	410	203
Municipal issues	847	709	851	1,098	972
Grand total	$5,186	$6,314	$5,788	$5,350	$4,053

Corporate bond and note issues declined from approximately $2,800,000,000 in the first half of 1928 to $2,000,000,000 in 1929 and then

rose to $2,700,000,000 in 1930. Financing by this method for railroads, public utilities and industrials gained this year, while that for investment and miscellaneous companies (real estate etc.) decreased. On the other hand, corporate stock financing this year is only one-third that of a year ago, when tight money rates prevailed and there was lack of demand for bond issues but an almost insatiable demand for common stocks. Offerings of industrial stocks dropped from $1,354,000,000 to $390,000,000, investment and holding company stocks from $836,000,000 to $73,000,000 and miscellaneous stocks from $615,000,000 to $66,000,000.

It is also worthy of note that foreign government loans, which last year amounted to but $42,000,000, recovered to $375,000,000 this year.

New offerings in July were somewhat lighter than in earlier months this year, the total through the 31st being $517,010,000, including approximately $95,000,000 in municipal bonds, $60,000,000 railroad, $218,000,000 public utility, $47,000,000 industrial and $62,000,000 foreign. Stock issues came to only $52,640,000, including $50,000,000 of Hearst Consolidated Publications, Inc., a stock paying 7 per cent offered at par. The Austrian Government International Loan, similar to the German loan offered in the preceding month, was priced at 95 to yield 7.40 per cent.

In July, 1929, the total of new offerings was considerably larger than this year, but was composed of more than 75 per cent stocks in contrast to only 10 per cent this year.

Crops and Markets

The crops have suffered in July from drought, but at this writing no definite estimate of the injury can be made. General conditions were very good to July 1st, although the hay crop was reduced by dry weather before that time.

On the basis of conditions July 1, the crop-reporting bureau of the Department of Agriculture estimated all wheat production at 807,000,000 bushels, about the same quantity harvested last year. Of this total the Fall-sown crop accounted for 558,000,000 bushels and other varieties for the remainder. The Winter crop is showing excellent quality and weight in threshing and probably will overrun the estimate, but the Spring crop will fall short, possibly 30,000,000 to 50,000,000 bushels. The crop is moving to market rapidly in the Southwest, and the visible supply on July 26 had increased to 139,000,000 bushels, from the low point of 109,000,000 on June 28.

The Canadian crop is in a critical period and reports about it indicate a spotty condition. It will not be one of the big crops, but may be 100,000,000 to 125,000,000 bushels larger than last year.

Interest has centered largely in corn, wherein probably the most serious loss has occurred. The acreage is 3.6 per cent larger than last year, and the government estimate as of July 1 was for a crop of about 2,800,000,000 bushels. The drought has hit the big corn states of the Middle West, and private estimates of the damage range from 150,000,000 bushels to twice that. Last year's crop was 2,600,000,000 bushels and the carry-over will be comparatively small. The price has advanced about 14 cents per bushel in the last month.

The cotton acreage is slightly lower than last year, and the Cotton Exchange report calculates that with a yield corresponding to the average of the last ten years this would produce a crop of 14,200,000 bales. However, all seasons vary, and until the latter part of July 15,000,000 bales was a common estimate. Up to a point not very clearly fixed the hot, dry, weather was considered a favorable factor, but in the last week of July there were many reports of damage. The price is down nearly to the low figures reached under the big crop of 1926, the spot in New York touching 12.65 cents on July 24, against 12.15 on December 31, 1926.

The depressing influence obviously is the low mill consumption and prospect for a large increase in the carry-over at the end of the crop year, July 31. The New York Cotton Exchange estimate of world consumption in June was 877,000 bales, against 1,224,000 in June, 1929, 1,175,000 in June two years ago, and 1,421,000 in June three years ago. The largest carry-over in recent years was in 1927, following the big crop of 1926, when the quantity was 7,794,000 bales; in 1928 it was 5,121,000 bales and in 1929, 4,474,000 bales. This year it is estimated at 6,150,000 bales, of which 4,400,000 are in this country and 1,750,000 held abroad, the latter being smaller than at the end of any recent season.

Farm Board Operations

The Federal Farm Board has acted decisively, so far as further wheat purchases by the stabilization corporation are concerned. The Chairman says that it is impossible for the Government to buy successive surpluses, a proposition which ought to be clear to everybody, and it might be added that government purchases have a tendency to create successive surpluses. Now that the government is definitely out of the purchasing business we believe an overwhelming majority of the people will favor staying out under all circumstances. When the Government undertakes to support prices, producers are encouraged to rely upon its efforts, and the problem of over-production, instead of being solved, is made more difficult than it was before, as Chairman Legge

probably realizes. He has arrived at the conclusion that the producers must attend to the surplus themselves.

With characteristic vigor, Mr. Legge has made a trip through the winter wheat region of the Southwest, urging a reduction of the Fall-sown acreage this year. His recommendation is criticized on the ground that wheat is produced there more cheaply than elsewhere and is the best paying crop for that section, hence curtailment can be more advantageously adopted elsewhere. In principle this argument is sound, but perhaps a little cooperation all around would ease the present situation. It is probably fortunate even for Kansas that the wheat crop of that state was not 200,000,000 bushels this year.

Overproduction or Underconsumption

The argument rages as to which of these conditions is responsible for the accumulation of apparently surplus stocks of many kinds of merchandise, and the fall of prices to levels that are agreed to be below production costs. It is conceded that maladjustment exists, but where lies the responsibility and what can be done about it? Such a situation affords a great opportunity for reformers who have schemes for the fundamental reorganization of society, and who hope that discontent with unsatisfactory conditions will get them a hearing. Well meaning people send out vague appeals to the "leaders of business" to remedy the ills of the situation, lest some dire consequences befall them as a result of neglect of public duty. All of these leaders of business of course are involved in a situation so far beyond their control that they scarcely know how to manage their own affairs in it, to say nothing of joining in a round table conference for the purpose of setting the world to rights. Incidentally somebody might compile a list of the world conferences that have been held, say since the war, and the results achieved by them. Some of them have been very helpful, many have been fruitless but surely there is no lack of conferences, conventions, congresses and the like.

The truth is that the affairs of the world do not lend themselves very readily to overhead management, chiefly because the people of the world do not readily accept management from above and have the greatest possible difficulty in agreeing with each other upon policies of democratic management. Here is the fundamental problem in all efforts to improve the management of world affairs.

It is agreed among economists that the modern industrial organization depends for efficiency upon a balanced production of all the goods and services that enter into trade. Although goods are sold for money, what is really accomplished is an exchange of services. The purchasing power of each person is in his own services, which he must sell in order himself to be a buyer. If it were possible to distribute the working forces in all the industries and employments with such precision that the various products and services would be offered on the markets just in the varieties and quantities wanted, it is true that production might be increased indefinitely and the markets would be cleared and nothing left over. Every possessor of surplus goods has wants unsatisfied. It is all a problem of making the exchanges.

Here is the basis of the dream of socialism or communism, of having some overhead authority manage the whole industrial system, assign each person to the work selected for him and apportion to him his allotted share of the results. It contemplates that the people shall be either educated up to a voluntary acceptance of the plan or that it shall be established by force. The people as yet are a long way from voluntary acceptance and no system of forced labor ever yet has been an efficient system or is likely to be.

The Existing Regime

The existing regime is one of voluntary organization controlled by the price system. The individual is free to find his own place in the organization, but if too many attempt to render the same service the compensation falls and some of them look for something else to do. The system is kept in a fair state of balance by this automatic regulation.

Complications occur, in that new commodities or services are constantly being offered, methods of production are changing, prices are always changing, and the endless variety of products and services are wanted in constantly changing proportions. The theory that there can be no overproduction so long as all products are offered in right proportions to each other is a perfectly sound theory as the economists state it, as a guide to production, but obviously cannot be fully realized in a free society. It shows the folly of deliberate or heedless production of any commodity in excess of market demands and points to the condition under which the highest state of welfare for the population may be attained, to-wit, by intelligent cooperation and well-balanced production.

Success of Free Industry

It may be thought that as a means of regulating the plans and activities of hundreds of millions of people scattered over the globe, whose products are being offered in competition and for trade, this idea of balanced production is impracticable or absurd, but in fact so effective are the workings of a free price

system, based on the common gold standard, that the results are marvelously good, considering the uncertainties of production, the interference of governments, and the changes resulting from development in the industries. Just now it is agreed that the world is badly disorganized and out of balance, but the maladjustments probably do not affect the volume of production to as much as 10 per cent of the normal total. So much for the efficiency of voluntary trade, hampered though it is in many ways.

Some of the Present Difficulties

The International Chamber of Commerce, at a recent meeting in Paris, passed a resolution in which it offered the following explanation of present economic conditions:

(a) By the increase in the capacity of production that has outstripped the increase of population because of the industrial development due to the War, mass production, and the desire of nations to become economically and industrially self-supporting;

(b) By under-consumption resulting from a grave agricultural crisis and from the closing of certain important markets (accentuated by the fact that in Russia, China, and India 900 millions are not only not improving their standard of living, but are actually consuming less per head than before the War); and also because in almost all the industrial countries of the world, retail prices have not fallen in anything like the some proportion as wholesale prices.

The resolution requests Governments to take all possible measures to promote the international exchange of goods; and requests the Bank of International Settlements and banks of issue to do everything in their power to avoid excessive accumulations of gold, to facilitate a supply of credit at moderate rates and the free circulation of capital.

The first two paragraphs seem to give a reasonable explanation of the confusion which has fallen upon trade, but the situation is made more intelligible by an examination of the conditions affecting some of the important commodities of world trade.

The Example of Sugar

We have referred to sugar before, but its case grows more complicated. The United States Department of Agriculture gives figures showing the average production of sugar in the years, 1909-14 as 8,823,650 short tons from beets and 10,539,000 from cane, an average total of 19,363,000. The same authority gives the total production in 1929-30 as 29,970,000 short tons, of which 10,249,960 was from beets and 19,720,000 was from cane, an increase of approximately 50 per cent. The original stimulus to the increase came from the scarcity which was caused by the destruction of the beet sugar industry in the war-ravaged regions of Europe, but legislation has been another factor. On account of low prices in world markets, several countries have raised their import duties to more effectively protect the home industry, with the result that production has been increased in the face of a world surplus. Italy, which before the war produced only a part of her own requirements now supplies them in full. The few countries of continental Europe which need to import sugar are supplied by neighboring countries.

In the crop year 1913-14 the production of sugar in Japan and Formosa was 157,050 long tons, which has been increased to 930,000 tons in 1929-30. Japan's foreign exchange problem since the war, and particularly since the earthquake in 1923, has made it desirable for that country to reduce imports as much as practicable.

Six years ago, Great Britain as a measure of relief to domestic agriculture, suffering from low prices for staple products, launched a plan for establishing a beet sugar industry under a liberal subsidy to be paid over a period of ten years. In the current sugar year the subsidized factories have produced 300,000 tons of sugar, at a cost to the public treasury of $25,000,000 and recently Mr. Baldwin, leader of the Conservative party, has stated that this should be doubled.

Meanwhile, the cane sugar industry in the British colonies has been reduced to the verge of ruin by the low prices resulting from overproduction. Jamaica this year is paying out of the colonial treasury a subsidy of about $500,000 to its sugar producers to keep the industry alive, and the other West Indian colonies are following the same policy. It is a very old industry in these islands, and the inhabitants are dependent upon it for a livelihood. They are appealing to the British home government for relief and it is possible that further aid may be granted.

In the United States the import duty on sugar has been raised from $2.20 per cwt. to $2.50, subject to the reciprocity arrangement with Cuba, which reduces the rate 20 per cent to $2.00 per cwt. The increase affords an inducement to increased production not only in this country, but in Porto Rico, Hawaii and the Philippines.

Cuba is now in the sixth year of progressive depression in her chief industry. In 1924 she exported 8,750,426,669 pounds of sugar, of the value of $374,496,287. In 1925 she exported 10,882,399,222 pounds of the value of $280,-349,739, and in 1929 exported 10,271,639,000 pounds of the value of $188,635,735. Here is a decline of nearly $200,000,000 in the value of this crop, and in 1930 both the quantity and price will show a further shrinkage.

As yet the increased duty has afforded no increase of prices to the domestic sugar producers under the United States flag, for Cuban stocks exist and must be sold for what they will bring, hence come in regardless of the duty. The price of unrefined sugar in New York harbor before payment of duty is about $1.25 per cwt., which is much below the cost of production anywhere.

If sugar was free of taxation, it is possible that the present production might be consumed, for taxation makes it very dear in many countries, but it is clear that under existing conditions production is considerably in excess of the demand. Owing to the tendency in so many countries to increase domestic supplies, it is probable that the most economical production in the world will have to be curtailed. The low price of sugar is affecting the ability of millions of people to buy other products.

The Wheat Situation

The wheat situation is not as bad as that of sugar, but its origin is much the same. The war cut off the accustomed supplies of Russian wheat from western Europe, and the resulting high prices caused the expansion of production in Canada, Australia, Argentina and the United States. The average wheat sowings of Canada in the period of 1909-13 was under 10,000,000 acres and in 1929 was 25,255,000 acres. In Australia in 1909-13 the average was 7,603,000 acres, and this year is reported at 17,000,000. The wheat acreage of the United States in 1909-13 averaged 47,097,000 acres and last year was 61,103,000. The Secretary of Agriculture has stated recently that the annual consumption of wheat in the United States has declined 1.2 bushels per capita in the last thirty years, or an aggregate practically equal to our average exports. Moreover, the importing nations of Europe, actuated by a desire to maintain favorable trade balances, and in the case of Germany by the necessity of doing so in order to make the reparation payments to which she is pledged, have endeavored by increased import duties and milling regulations to reduce the consumption of imported wheat, and induce their people to eat home-grown food supplies. If, as rumors intimate, Russia should come back with wheat exports equal to those of pre-war years, the necessity for a readjustment of production schedules somewhere would be apparent.

Coffee

Coffee is an important commodity of international trade, production of which has been increasing steadily until the stocks on hand at the beginning of the present coffee year equalled more than a year's consumption, with a new crop ready for the harvest. Production has increased in all coffee countries, as a result of successful efforts to stabilize prices. Present prices are only 40 to 50 per cent of those prevailing a year ago, and the decline has worked a radical change in the trade relations between the coffee countries and other countries.

The Fall of Silver

Silver has been in an unstable position for some time, due in the first place to a loss of position as a money metal, and to increasing supplies due to the fact that it is obtained as a by-product in the mining of the non-ferrous metallic ores. The highest production of silver on record is that of the year 1928, when the aggregate yield was 257,273,490 fine ounces, but prior to 1922 production had exceeded 200,000,000 ounces in but seven years. Most of the silver currencies disappeared during the paper money regime following the war, and when silver coinage was resumed many of the governments elected to reduce the silver contents, thus permanently reducing an important outlet. Paper currency has been gaining circulation in India, and silver coins have accumulated in public offices, the government has melted them and sold considerable quantities of bullion. Finally the civil war in China has seriously affected the trade of that country. At first it had the effect of increasing the demand, as the rival war lords wanted silver coins with which to pay their soldiers, but not only has the ability of China to buy silver diminished, but the existing disorder has caused a flow of silver from the interior to the ports, until stocks at Shanghai and Hong Kong are far above any former holdings, and are a depressing influence on the world price.

At this time last year silver was quoted in New York at about 53 cents per fine ounce. The decline within a year amounted to about 20 cents or 38 per cent. During this period, the wholesale commodity price indexes of most of the countries declined from 10 to 15 per cent, but the Shanghai wholesale prices index, based on silver currency, advanced from 163 in June, 1929, to 173 in May, 1930. The biggest rise in terms of silver took place, of course, in prices of imported articles, but domestic products rose to some extent in sympathy. This is particularly true of rice, a commodity for which the average wage earner in China spends about half of his income. Owing to disturbed conditions it has been necessary for China to import unusual quantities of foodstuffs, bought in gold standard countries, with the depreciated silver, and undoubtedly this has affected the importations of cotton goods, and other things. The existing hoards of silver in both China and India have suffered depreciation, and this has affected the purchasing power of those populations.

Obviously, the fall in silver has affected the silver mining countries unfavorably; Mexico as the chief producer most of all.

The Textiles

The textiles are all in a state of confusion, due to various causes. Stocks of wool were increasing for several years, and under the in-

fluence of slackening demand prices broke sharply about a year ago. Increasing competition from cotton, silk and rayon and the influence of unfavorable styles in ladies' dress goods undoubtedly contributed. The textile fibers, including jute, have come down together, with a paralyzing influence upon trade with the countries producing the raw materials. The British cotton goods trade, which has been suffering since the war, has suffered further this year by the boycott movement in India against all British goods.

There is reason for believing that supplies of wool and cotton are not much in excess of normal consumption; in other words that they are not primary factors in the low-price situation, as are sugar, wheat, coffee, rubber and silver, but sufferers by the general depression. Nevertheless, the spread of cotton growing in the Southwest has had a distinct influence.

The improvement in the quality of rayon—artificial silk—has been so great, and its use has become so general for clothing formerly made of cotton and real silk, that undoubtedly it has disturbed the entire textile group. The disastrous decline in real silk prices in the last four months seems to have been due more to the decline of imports into the United States than to anything else. The following silk figures are of interest:

World silk production: 1928, 101,567,000 pounds; 1929, 105,577,000 pounds.

Japanese silk production: 1928, 68,000,000 pounds; 1929, 72,000,000 pounds. Estimate for 1930, 78,000,000 pounds.

Imports of raw silk into U. S.: 6 months 1929, 301,000 bales; 6 months 1930, 207,000 bales.

Silk in storage in U. S.: June, 1929, 47,400 bales; June, 1930, 28,000 bales.

Japanese stocks of silk: June, 1929, 17,000 bales; June, 1930, 134,000 bales.

Consumption of silk by American mills: 6 months 1929, 303,000 bales; 6 months 1930, 270,000 bales.

The consumption figures can hardly be regarded as bad, indicating a decline of only about 10 per cent, but the price decline in New York has been from about $4.50 per pound in March to $2.90 at the present time.

A stabilization corporation was organized in Japan under the auspices of the Government and has loaned heavily to the producers at 1,250 yen per bale, or $4.67 per pound. The stabilization corporation is of the type with which we have recently become familiar in this country, backed by the Japanese Government, and at this time faces a heavy loss. Announcement has been made that 87,000 bales of the stock upon which the Government has made advances have been withdrawn from the market, in the sense that they will not be offered in competition with the new crop, unless needed to meet a demand at decidedly higher prices. The effect of this fall in Japan's chief article of export is seen in the fact that total imports of the country in June, 1930, aggregated 126,400,000 yen, against 176,000,000 in June, 1929, a decline of about 28 per cent.

Disorder Dates Back to the War

This review has been carried far enough to show the confusion that exists in the markets and some of the causes for it. While the downward movement has been general, it has not been uniform, and certain important commodities have been prime movers. Others have been first victims and then contributors, the effects being cumulative as one industry after another has felt the effects of a contracting world trade.

It is idle to attempt to fix the responsibility for the debacle anywhere except upon the general derangement of trade. No governmental system, industrial system or monetary system is responsible. There is no possibility of a super-governmental authority capable of coordinating the industries of all countries and bringing them into mutually advantageous relations by a mandate. The law of supply and demand, working through the price system, is the only universally acknowledged authority. It is automatic, impartial, not the creation of any one country. Its simple, unchanging rule is that since products pay for products in trade, production and prices must be kept in balanced relations. When that rule is violated, trade slows down. Throughout all the development of industry in the last one hundred and fifty years, since power was applied to machinery, with the vast multiplication of both variety and quantity of products, the law of supply and demand and the price system have regulated the exchanges and distributed labor in the industries under a regime of individual freedom and with a rising state of general welfare. There have been periods of derangement and confusion, caused by rapid developments, miscalculations in industry and extraordinary occurrences like a great war, but the economic forces are always working to maintain or restore the equilibrium.

British Empire Trade

The past year has been an anxious and disappointing one in Great Britain, because of the continuance of depression in the leading export industries, now extended over about ten years. The present Labor government came into power a year ago with an undoubted determination to accomplish a reduction of unemployment, but the number of registered unemployed is about 800,000 larger now than when it took office.

The Labor party is for Free Trade, which has been the accepted policy of Great Britain for nearly 100 years, except as modified by certain so-called "safe-guarding" duties imposed by the Conservative party following the

war, partly for revenue and partly to protect British manufacturers at a time when the depreciated currencies of Europe were making their position particularly difficult. Mr. Snowden, present Chancellor of the Exchequer, has indicated his purpose to propose the removal of these duties as soon as practicable, and also of the preferential duty in favor of sugar produced in the British colonies. The Liberal party, always strong for Free Trade, supports the Labor party in this policy, and the Conservative party, containing a strong element favoring "safe-guarding," or a more pronounced form of protection, has thought the time opportune for making an issue of this question.

Six years ago the Conservative party, under the leadership of Mr. Baldwin, made a venture of the same kind, with the result that it was defeated and the Labor party came into power. Mr. Baldwin, while favoring the retention of the safeguarding duties, has doubted that the country would accept import duties upon food, and has proposed that as to these a special referendum vote should be taken, while to satisfy the agricultural interest he has proposed to pay a bounty upon home grown grain and perhaps other farm products.

His position has not been pronounced enough to satisfy the aggressive protectionist element in his own party. Led by Lord Beaverbrook, a native of Canada, and owner of London newspapers of large circulation, a strong movement has developed in favor of "Empire Free Trade," which is defined as "Free Trade with the British Empire and a tariff wall against the rest of the world," this program, however, being admittedly subject to general revenue duties. The rapid development of the United States is stressed as illustrating the benefits of an empire area of diversified resources, with a community of interests and protected against outside aggression. In the present time of discouragement in Britain over hostile tariffs and trade depression, the idea has had a popular reception.

Statement by Bankers

It received a strong impetus last month by the appearance of a statement signed by a group of leading bankers and men of large affairs declaring in effect that the time had come for a change in Britain's historic policy of open markets and the adoption of a more aggressive policy for the support of British industries. The statement reads as follows:

It is resolved that urgent measures for the promotion of inter-Imperial trade are needed to secure and extend the market for British products, both at home and through the export trade.

Bitter experience has taught Great Britain that the hopes expressed four years ago in a plea for the removal of the restrictions upon European trade have failed to be realised. The restrictions have been materially increased, and the sale of surplus foreign products in the British market have steadily grown.

While we retain the hope of an ultimate extension of the area of Free Trade throughout the world, we believe that the immediate step for securing and extending the market for British goods lies in reciprocal trade agreements between the nations constituting the British Empire.

As a condition of securing these agreements Great Britain must retain her open market for all Empire products, while being prepared to impose duties on all imports from all other countries.

The paper derives additional interest from the fact that the names of the London bankers attached, nearly if not all, appeared upon the famous bankers' manifesto of 1926, which was signed also by leading bankers of other countries, and consisted of an argument for a general lowering of import duties to aid in the recovery of world trade.

These men explain their change of front by saying that they still believe that the policy advocated in 1926 is the best policy for general trade and prosperity, but that other countries fail to join in it. Economic conferences, they say, have been fruitless, and the practical result of Britain's policy has been to make the British home market a dumping ground for foreign goods, to the injury of British industry and without reciprocal trade opportunities.

The steel industry is represented as suffering from large imports of Belgian and German steel, the effect of which is to prevent the home industry from obtaining a full volume of production, thus increasing costs and handicapping the home producers in all competition. It is urged that in the stress of competitive conditions the foreign rivals are behind fortifications while the British industries must fight in the open, even for their home business.

It is not difficult to understand the appeal of these arguments under existing conditions, after ten years of dragging trade and with unemployment now at the peak of the period.

The Other Side

However, there remain stout opponents of the new proposals, who claim that the arguments offered are specious and delusive. They point out that notwithstanding the barriers against British trade outside the empire and the existing preferential duties within the empire, the present trade of Great Britain outside these boundaries is much larger than its trade inside. They suggest that restrictive measures to alter the flow of this trade may do more harm than good, both to the mother country and the dominions. They doubt that the dominions will be diverted from their avowed purpose to build up their own manufactures, and warn that duties upon food and raw materials entering the home country are likely to increase both living and manufacturing costs, and be a grave experiment.

Conflicting Interests

It cannot be questioned that the dominions and colonies would value highly a preferential position in the markets of Great Britain for the food products and raw materials which are their chief export commodities. The election campaign which has just closed in Canada has afforded convincing evidence of the desire of the people of that great dominion for closer relations with the mother country, and it will be well for the people of the United States to reflect upon the fact that this desire has been strengthened by a feeling that they do not receive considerate treatment in their trade relations with this country.

There always have been two obstacles to anything like exclusive trade relations between the dominions and the mother country: (1) the dominions want to build up their own manufacturing industries and (2) the mother country does not want to pay more than open market prices for food and raw materials. In short, neither really wants to give what the other is hoping to get in the proposed trade.

It is doubtful if the dominions would derive all of the benefits they expect from a preferential position for their chief products in the British market. In the case of wheat, the exports of the dominions much exceed the imports of Great Britain, hence, if the former had entire possession of the latter market they would still have a surplus to be sold outside the empire, and the price of surplus would make the price of the crop. The figures for the years 1927, 1928 and 1929 are as follows:

Exports of Wheat From Canada and Australia and Imports of Wheat, Including Flour, Into the United Kingdom

Year Ended June 30	Exports from Canada and Australia (Bushels)	Imports into United Kingdom
1927	412,000,000	227,000,000
1928	378,000,000	222,000,000
1929	535,000,000	215,000,000

New Zealand and India also export wheat, but the quantities are comparatively small and need not be included here.

If a tariff wall was erected there would be some shifting of the flow of wheat from the usual channels, by reason of discrimination against the grain of Argentina and the United States, and some inconvenience and perhaps expense would result, but probably there would be little change of prices. There would be no increase of wheat consumption in the world, and if production should be stimulated in the dominions the results would be unfortunate.

This would not be true of all products. In cases where the dominions and colonies were not immediately able to meet the full demand there might be a stimulus to production which would result in an excess of world supply, as the stimulus of war prices has resulted in an over-supply of many commodities, with a general derangement of world trade. It is usually the case that the rapid development of production in new regions results in an over supply, because old sources of supply do not readily dry up. What happens is that production is made unprofitable for all, as illustrated in the sugar industry today.

A Warning Against American Dumping

The fact that the proposal to give the overseas dominions a preferential position in the markets of Great Britain is now the leading issue in British politics, should be a warning against any legislation in the United States which contemplates dumping agricultural products on the British market at lower prices than are ruling in the markets of this country. Such legislation would go squarely up against the rising tide of sentiment for economic unity within the British empire. Every dominion or colony that might be affected would protest against it and every political party in Great Britain would respond to the protest. Mr. Baldwin, leader of the Conservative party, has declared that he favors legislation to counteract every form of dumping or bounty promotion as applied to agricultural products entering Great Britain, and Mr. Lloyd George, leader of the Liberal party, has declared that he favors the absolute prohibition of imports thus promoted.

The truth is that no scheme of offensive legislation is in more general disrepute today than that of "dumping" or the payment of bounties on exports. Our own new tariff act carries all the provisions of preceding ones for countervailing duties to nullify such legislation when enacted by other countries to the disadvantage of our own industries. No more dangerous legislation from the standpoint of the agricultural interests of the United States can be imagined than offensive measures of the McNary-Haugen and Debenture type. They are provocative, unfair and in violation of every suggestion of international cooperation to prevent excessive production of agricultural commodities. The Secretary of Agriculture and the Chairman of the Federal Farm Board have spoken plainly and properly upon this matter.